

Message Text

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PAGE 01 BRASIL 05587 071310Z

ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 /089 W
-----086235 071348Z /43

R 071230Z JUL 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 2617

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 5587

E.O. 11652: N/A

TAGS: EFON BR

SUBJECT: INFLATION DROPS AGAIN IN JUNE

REF: BRASILIA 4930

1. BASED ON PRELIMINARY DATA, FIANACE MINISTER SIMONSEN ANNOUNCED THAT INFLATION IN JUNE (AS MEASURED BY THE GENERAL PRICE INDEX) WAS ABOUT 2.0 PERCENT, DOWN FROM 3.6 PERCENT IN MAY AND 4.1 PERCENT IN APRIL. CUMULATIVE INFLATION FOR THE FIRST HALF OF THE YEAR THUS CAME TO 22.6 PERCENT, ALMOST UNCHANGED FROM THE 23.3 PERCENT OF THE FIRST HALF OF 1976. INFLATION FOR THE TWELVE MONTHS ENDING IN JUNE AMOUNTED TO 46.2 PERCENT, AS COMPARED WITH 47.1 PERCENT FOR THE YEAR ENDING IN MAY.

2. COMMENT: THE RATE OF INFLATION FOR JUNE WAS THE LOWEST REGISTERED DURING THE LAST YEAR(IT WAS 2.2 PERCENT IN JUNE 1976). SIMONSEN ATTRIBUTED THE LOWER JUNE RATE TO THE FACT THAT, UNLIKE PREVIOUS MONTHS, THERE NO JAOR ADJUSTMENTS IN ADMINISTERED
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PAGE 02 BRASIL 05587 071310Z

PRICES OVER WHICH HE HAS GAINED COMPLETE CONTROL (SEE BRASILIA 4173). THE JUNE RESULTS HAVE GENERATED A GREAT DEAL OF OPTIMISM ABOUT THE GOVERNMENT'S ABILITY TO CONTROL INFLATION, ALTHOUGH SIMONSEN HIMSELF REFUSED TO MAKE ANY SPECIFIC PREDICTION BEYOND SAYING THAT INFLATION IN THE SECOND HALF SHOULD BE LOWER THAN IT WAS DURING THE FIRST.

SINCE THE DECELERATION OF INFLATION COINCIED WITH
THE ADDITIONAL POWERS GRANTED TO SIMONSEN OVER
ADMINISTERED PRICES, HE IS BEING GIVEN A LOT OF THE
CREDIT FOR THE IMPROVED PERFORMANCE IN JUNE.
SIMONSEN HOPES THAT THE LOWERING OF THE INFLATION
RATE WILL REDUCE INFLATIONARY EXPECTATIONS AND
PERMIT A DECLINE IN INTEREST RATES WHICH ARE SEEN
AS AMOJOR COST-PUSH FACTOR GIVEN THE HIGH DEBT/
EQUITY RATIO OF BRAZILIAN FIRMS. WHETHER INTEREST
RATES WILL IN FACT COME DOWN (PRIME RATE IS
STILL IN THE 46-48 PERCENT RANGE) WILL DEPEND ON
A LOW ATE OF INFLATION FOR THE NEXT TWO TO THREE
MONTHS AND NOT JUST ON THE OUTCOME OF ONE MONTH.
JOHNSON

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, PRICE INDEXES, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 07-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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